

Normalized earnings came in-line; bottom line was supported by unusual other income, while selling prices under pressure again

Yamama Cement posted a net income of SAR 98.3mn (8.4% Y/Y), well above our and consensus estimates of SAR 57.3mn and SAR 71.6mn, respectively. The deviation from our estimate is expected to be driven by unusual other income. Adjusted net income is expected to stand at SAR 59.0mn, in-line with our estimated SAR 57.3mn. Volumetric sales were reported at 1.45MT (up 9.6% Y/Y, and down 9.3% Q/Q), slightly above our estimate of 1.3MT. Realization per ton is expected to stand at SAR 151.1/tonne (down 4.6% Y/Y, and 14.8 Q/Q), and below our estimate of SAR 161.3/tonne. Cost per ton is implied to stand at at SAR 93.4/ton (increased by 13.8% Y/Y) due to higher depreciation expense, which came in-line with our estimates. We maintain our TP of SAR 33.7/Share with a “Neutral” recommendation.

- Yamama Cement posted a net income of SAR 98.3mn in Q2-23 (EPS: SAR 0.49/share); compared to SAR 90.7mn in Q2-22, and came well above our and market consensus estimates of SAR 57.3mn and SAR 71.9mn; respectively. The deviation from our estimate is mainly due to the higher-than-expected other income. Based on our calculations, other income is expected to stand at around SAR 41.0mn, compared to our estimate of SAR 2.3mn and SAR 6.8mn in Q2-22. The Q/Q decline of 12.5% in net income is mainly attributed to a lower realization per tonne and seasonal impact, while the Y/Y increase of 8.4% was mainly due to unusual other income.
- Revenue totaled SAR 218.9mn in Q2-23 (down 22.7%Q/Q, up 4.6%Y/Y), came in-line with our estimated SAR 209.4mn. The 27.7 Q/Q decline was due lower volumetric sales and average price realization. The company’s average price realization stood at SAR 151.1 per tonne in Q2-23 (down 4.6% Y/Y, and 14.8 Q/Q), below our estimate of SAR 161.3/tonne. Sales volume stood at 1.45MT (up 9.6% Y/Y), slightly above our estimates of 1.30MT; but fell short of short of the 1.60MT recorded in the previous quarter.
- Gross profit declined to SAR 83.6mn (down 17.1% Y/Y, and 39.1% Q/Q), in-line with our estimate of SAR 88.4mn, impacted by weak top line. GP margin contracted to 38.2% from 48.4% in Q2-22, below our estimate of 42.2%. The weak GP margin came as a result of higher depreciation costs after the full commercial operation of the company’s new plant. The cost per tonne is expected to stand at SAR 93.4/tonne, compared on SAR 82.1 in Q2-22, in-line our estimates.
- Operating profit amounted to SAR 67.4mn, in-line with our estimated SAR 68.9mn. OPEX totaled to SAR 16.1mn (down 17.9% Y/Y, and 19.3% Q/Q), compared to our estimated SAR 19.5mn. As a result, the OPEX-to-sales ratio reached 7.4%, lower than the 9.4% in Q2-22, leading to an operating margin of 30.8%, the lowest since Q1-22, compared to our estimate of 32.9%.

AJC view and valuation: The higher-than-expected other income is the key support of Q2-2023 performance, which we expect to be driven by capital gains from selling assets in the old factory. Adjusted earnings for Yamama came around SAR 59.0mn, in-line with our estimated SAR 57.3mn. However, we believe that this level of other income is not sustainable, and will normalize in the coming quarters. Meanwhile, selling prices went under pressure again and stood around SAR 151.1 per tonne, which might continue to impact earnings in the coming quarters as competition in the market is persistent. We expect selling prices to average around SAR 161 during FY23. Meanwhile, the lower-than- initially expected OPEX in H1-23, which reflects higher operational efficiency from the company, might support the margins in the coming quarters. The stock is currently trading at 17.1x compared to a forward P/E of 25.3x based on FY23 earnings. We maintain our “Neutral” recommendation on Yamama cement with a TP of SAR 33.7/Share.

Results Summary

SAR mn	Q2-FY22	Q1-FY23	Q2-FY23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	209.3	283.2	218.9	4.6%	(22.7%)	4.5%
Gross Profit	100.7	137.1	83.6	(17.1%)	(39.1%)	(5.4%)
Gross Margin	48.4%	48.8%	38.2%	-	-	-
EBIT	81.1	117.1	67.4	(16.9%)	(42.4%)	(2.2%)
Net Profit	90.7	112.4	98.3	8.4%	(12.5%)	71.6%
EPS	0.45	0.56	0.49	-	-	-

Source: company report, Aljazira Capital Research

Recommendation	Neutral
Target Price (SAR)	33.7
Upside / (Downside)*	-7.2%

Source: Tadawul *prices as of 01st of August 2023

Key Financials

SARmn (unless specified)	FY20	FY21	FY22	FY23E
Revenue	956	736	1,023	946.8
Growth %	19.2%	-23.0%	39.0%	-7.4%
Net Income	406	154	356	290
Growth %	58.2%	-62.1%	131.5%	-18.4%
EPS	2.00	0.76	1.76	1.43

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22	FY23E
Gross Margin	46.0%	30.0%	41.4%	44.3%
Net Margin	42.4%	20.9%	34.8%	30.6%
P/E (x)	14.8	34.3	17.8	25.3
P/B (x)	1.52	1.23	1.36	1.51
EV/EBITDA (x)	19.1	39.1	20.1	13.9
Dividend Yield	0.0%	0.0%	3.7%	2.7%

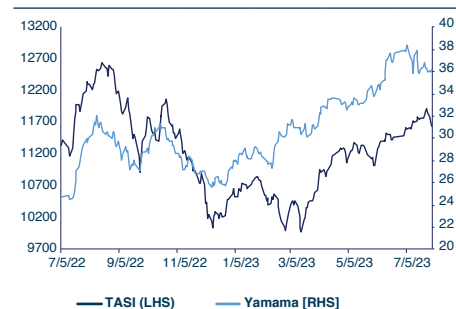
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	7.35
YTD%	33.15%
52 week (High)/(Low)	38.6/25.3
Share Outstanding (mn)	202.50

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RESEARCH DIVISION

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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